

Washington, D.C. - As part of her continued effort to strengthen and reform the regulations governing our financial system and overall economy, Congresswoman Melissa Bean (IL-08), was proud to co-author and join her colleagues in the House in passing H.R. 1728, the Mortgage Reform and Anti-Predatory Lending Act of 2009 on Thursday by a vote of 300 to 114.

Bean has been a strong advocate of the need for mortgage reform since 2007, well before the market collapse last fall triggered widespread concern. She co-authored mortgage reform legislation in the 110th Congress and publicly pressed the Senate for swift passage, out of concern that failure to pass the measure into law and reform regulation would have a broad economic impact.

“Mortgage reform is a key first step to the broader regulatory reform our financial system needs,” Bean said. “Outdated and ineffective oversight was a major factor behind the foreclosure crisis, which has contributed to the steep decline in the value of Americans’ homes, and to the overall downturn in the market and the economy. This bill ensures that all mortgage lenders follow proper underwriting standards.”

The bill would require mortgage originators and securitizers of subprime loans to retain a portion of the loan, and outlaw many of the riskier industry practices that marked the subprime lending boom, including provisions first spelled out in the Negative Amortization Mortgage Loan Transparency Act, H.R. 3894, previously introduced by Bean. The provisions of that bill called for mortgage originators to specifically disclose if a loan includes negative amortization to first-time homebuyers. Any first-time buyer who chooses a negative amortization loan would be required to receive credit counseling from a HUD-certified counselor. Negative amortization involves a loan structure that allows a lender to add to a borrower’s principal under certain conditions. A borrower could make scheduled loan payments for years but actually owe more to the lender - and own less equity in the home – then at the time of purchase.

Bean amended H.R. 1728 in committee to grant “safe harbor” exemptions to a wider range of traditionally stable mortgage products, including 15-year and 40-year fixed-rate mortgages and loans issued by the Federal Housing Administration and the Department of Veterans Affairs.

“This legislation balances our efforts to reign in the excesses of the subprime market with the need to preserve access to credit for responsible borrowers and those working with stable,

successful government programs that are designed to boost homeownership,” Bean said.

The overall bill would ensure that mortgage lenders make loans that benefit the consumer and prohibit them from steering borrowers into higher cost loans. It would establish a simple standard for all home loans: institutions must ensure that borrowers can repay the loans they are sold. For mortgage refinancing, the bill requires that all loans provide a net tangible benefit to the consumer. Also, for the first time ever, it would make the secondary mortgage market responsible for complying with these standards when they buy loans and turn them into securities.

Under the measure, lenders and the secondary mortgage market who don’t comply with these standards would be held accountable by consumers for rescinding the loan and the consumer’s costs for the rescission, including attorney’s fees. They would also have the option to rework a loan to conform to the bill’s standards within 90 days of receiving notice from the consumer.

The legislation would also strengthen anti-predatory lending practices, hold creditors responsible for the loans they originate, and protect tenants who rent homes that go into foreclosure.

The bill would establish an Office of Housing Counseling at HUD that will carry out and coordinate homeownership and rental housing counseling programs. Additionally, the legislation would mandate the inclusion of escrow payments for taxes and insurance in any repayment analysis provided to consumers at the time of a quote on a mortgage, to ensure that lenders alert borrowers to all of the costs involved in owning a home. The measure would establish stronger, enforceable federal appraisal standards with tough penalties, which will allow appraisers to act as independent referees to verify the value of the property for the buyer, the seller, the lender, and the investor, among others.

H.R. 1728 now heads to the Senate.